

NEWPORT LEGACY ZURICH SWITZERLAND: IT'S A TOUGH TIME FOR TRADE. BUT EMERGING ECONOMIES ARE MOVING AHEAD

Newport Legacy wealth management Zurich Switzerland Agree to this article.

This is an uncertain moment for global trade. Longstanding agreements between the United States and its biggest trading partners have been called into question by President Donald Trump. The United Kingdom is working to disconnect itself from the European Union.

Look more closely, however, and another, less-told story appears. Trade among emerging economies, with China often serving as the anchor, has been rising sharply. The world is not standing still.

Content by twofour54

How innovative VR can prosper in a creative ecosystem

We are only at the beginning of the possibilities of virtual reality. In UAE, it's finding a role in education.

We estimate that goods trade between emerging economies, both with China and not, encompasses 20% of the value of all global trade, up from 8% in 1995. Trade between China and other emerging economies has risen 11-fold in that time, while trade among emerging economies not involving China has risen six-fold.

China runs a big trade surplus of \$170 billion with emerging economies, although this is starting to shrink. Its share of labor-intensive manufacturing exports from emerging economies peaked at 56% in 2014. That shrunk to 53% in 2016 because of rising production costs.

How Trump's trade war with China could backfire 01:35

Other emerging-market countries have been able to fill the gap left by China in labor-intensive manufacturing, including products such as textiles. Some have put reliable infrastructure and business-friendly

investment conditions in place. Some countries have specialized. Vietnam has been the biggest beneficiary of this shift, through rapidly growing exports of electronics, among other things. In India, the fastest-growing manufacturing sectors include furniture-making, automotive and pharmaceuticals. Ethiopia, Rwanda and Vietnam have grown their textile exports rapidly, posting annual growth by more than 15% in the past five years. Bangladesh has also become a leading textile exporter — the sector employs about 5% of the labor force there. China, for its part, wants to increase its share of R&D and capital-intensive production, ceding some growth in labor-intensive production. Wages in China have been rising — and that has allowed emerging economies with lower wages to better compete. This trend, if it endures, is good news for low-cost, labor-intensive manufacturing in emerging economies. Manufacturing has long been an essential pillar of development, creating jobs and economic growth. Ethiopia, for example, increased manufacturing employment by almost 10% annually between 2000 and 2010.

MORE FROM PERSPECTIVES

Brexit will weaken Europe, isolate Britain and fuel global tensions

Everything you think you know about promoting diversity is wrong.
Here's how to do it

Low savings account? Blame your brain

It's an economic tenet that, eventually, manufacturing employment peaks as countries reach a higher stage of development. In recent years, that peak has been happening earlier than it used to. Harvard economist Dani Rodrik has dubbed the phenomenon "premature deindustrialization." Nonetheless, our analysis suggests there is still room for manufacturing going forward in emerging economies. Moreover, the growth of trade between emerging economies, including China, creates a strong position for China itself. In the years ahead,

China, now the world's second-largest economy and growing faster than the United States, can become the center of an expanding trade ecosystem.

But trade can also continue to help other, smaller emerging economies grow. We studied the per capita GDP of 77 countries over half a century. We found that countries that raised their share of the global trade of goods have done significantly better than those that did not. Indeed, for the 18 outperforming countries, the share of trade inflows and outflows rose from just 7% in 1980 to 29% in 2016. That 22 percentage-point increase is matched by a 22 percentage-point decline among outflows and inflows of goods in high-income countries in the same period.

Our research also shows that the top-performing companies from those 18 countries made a clear priority of trade and global expansion. The bottom line is that trade works — it helps lift emerging economies and their businesses.